



## **COMMITTEE**

# **TERMS OF REFERENCE**

**Revised May 2010**

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## **AUDIT AND COMPLIANCE COMMITTEE: TERMS OF REFERENCE**

**Composition:-**      **Mrs. A. East (Chairperson)**  
                             **D.A. Gamble**  
                             **D.J. Milner**

### **Membership**

The Board shall appoint the Committee. All members of the Committee shall be independent non-executive directors of the Society. The Committee shall consist of not less than three members. A quorum shall be two members.

The Board shall appoint the Chairman of the Committee from amongst the independent non-executive directors. The Society Chairman cannot be the Committee Chairman.

One member of the Audit Committee should have recent and relevant financial experience.

### **Secretary**

The Secretary of the Society shall be the Secretary of the Committee.

### **Attendance at Meetings**

No one other than the Audit Committee members shall be entitled to attend Audit Committee Meetings.

Other non-executive directors, Chief Executive, Finance Director and representatives of internal and external auditors, or other persons shall attend meetings at the invitation of the Committee.

There should be at least one meeting a year, or part thereof, where the Audit Committee meets the external and internal auditors without executive Directors present. This need not be the same meeting.

### **Frequency of Meetings**

Meetings shall be held not less than four times a year.

External auditors or internal auditors may request a meeting if they consider that one is necessary.

### **Authority**

The Committee is authorised by the Board to:

- investigate any activity within its terms of reference.
- seek any information that it requires from any employee of the Society and all employees are directed to co-operate with any request made by the Committee.
- obtain outside legal or independent professional advice, at the Society's expense, and secure the attendance of outsiders with relevant experience if it considers this necessary.

## **Duties**

The duties of the Committee shall be to:

### ***Reporting***

- Review, and challenge where necessary, the actions and judgements of management, in relation to the Society's financial statements, Summary Financial Statements and the operating and financial review before submission to, and approval by, the Board, and before clearance by the auditors. Particular attention should be paid to:-
  - critical accounting policies and practices, and any changes in them.
  - decisions requiring a significant element of judgement.
  - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed.
  - the clarity of disclosures.
  - significant adjustments resulting from the audit.
  - the going concern assumption.
  - compliance with accounting standards.
- Consider other topics, as defined by the Board, including the necessary Pillar 3 disclosures required by Basel II.

### ***Management Controls and Systems***

- Review the Society's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters.
- Review management's and the internal auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management.
- Monitor the integrity of the Society's internal financial controls.
- Review the statement in the annual report and accounts on the Society's internal controls and risk management framework.
- Assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks. The Board retains responsibility for the review of the effectiveness of the system of internal control and must form its own opinion despite aspects of that review being delegated to the Audit Committee.
- For the avoidance of doubt the Society's Risk Management Practises and Policies are the responsibility of the whole Board.

### ***Internal Audit***

- Review the internal audit programme and ensure that the internal audit function company/organisation is adequately resourced and has appropriate standing within the Society.

- Ensure that the internal auditor has direct access to the Audit Chairman and the Audit Committee and is accountable to the Audit Committee.
- Receive reports on the results of the internal auditors' work on a periodic basis, which must cover:-
  - (i) the adequacy of the Society's accounting records and accounting controls, and resulting recommendations for improvement where appropriate and necessary;
  - (ii) the adequacy of the Society's systems of business control and, in particular, its arrangements for evaluating risks in relation to its existing and future business and related capital requirements and to advise the Board on the adequacy of the Society's systems of business controls and to make recommendations for improvement when necessary.
  - (iii) the review of the accuracy and timeliness of management information and other reports made available to the Board.
  - (iv) significant information provided to the Financial Services Authority (FSA) (eg ILSA / ICAAP)
- Review and monitor management's responsiveness to the internal auditor's findings and recommendations.
- Monitor and assess the role and effectiveness of the internal audit function in the overall context of the Society's risk management system.
- Annually consider the re-appointment of the outsourced internal auditors and agree/set their fees.
- Become involved in an assurance capacity during the development of significant new IT systems or other projects to ensure the appropriate controls are in place.

### ***External Audit***

- Oversee the Society's relations with the external auditor.
- Consider, and make recommendations to the Board on the appointment, reappointment and removal of the external auditor.
- Approve the terms of engagement and the remuneration to be paid to the external auditor in respect of the audit services provided.
- Assess the qualification, expertise and resources, effectiveness and independence of the external auditors annually. Steps to consider include:
  - seeking reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the Society (other than in the normal course of business).

- seeking from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.
  - monitoring the external audit firm's compliance with applicable ethical guidance relating to the rotation of audit partners, the level of fees that the company pays in proportion to the overall fee income of the firm, office and partner and other related regulatory requirements.
  - agreeing with the Board and monitoring the Society's policy for the employment of former employees of the external auditor.
- Discuss with the external auditor, before the audit commences, the nature and scope of the audit.
  - Review with the external auditors, the findings of their work, including, any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved; key accounting and audit judgements; levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted.
  - Review the audit representation letters before consideration by the Board, giving particular consideration to matters that relate to non-standard issues.
  - Assess, at the end of the audit cycle, the effectiveness of the audit process by:
    - reviewing whether the auditor has met the agreed audit plan and understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks.
    - consideration of the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committees, and in their commentary, where appropriate, on the systems of internal control.
    - obtaining feedback about the conduct of the audit from key people involved.
  - Review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the Society's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.
  - Develop and recommend to the Board the Society's policy in relation to the Provision of non-audit services by the auditor and ensure that the provision of such services does not impair the external auditor's independence or objectivity. In doing so, the Audit Committee should:

- consider whether the skills and experience of the audit firm make it a suitable supplier of the non-audit services.
- consider whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor.
- consider the nature of the non-audit services, the related fee levels, and the fee levels individually and in aggregate relative to the audit fee.
- consider the criteria that govern the compensation of the individuals performing the audit; and
- set and apply a formal policy specifying the types of non-audit work from which the external auditors are excluded; for which the external auditors can be engaged without referral to the Audit Committee; and for which a case-by-case decision is necessary.

## **Risk and Compliance**

- Assess the adequacy of resources/skills of those involved in independent compliance monitoring.
- Approve the annual Compliance Monitoring Plan, taking into account the risk assessment of each area of the business.
- Receive the results of the findings from the independent compliance monitoring performed and details of any corrective action proposed by management.

and specifically:

- Annually review the Money Laundering Report and ensure its recommendations are carried out.
- Review the reports arising from the Society's internal monitoring of mortgage completions.
- Annually review the Society's risk management and control document and assess its appropriateness.

## **Reporting**

The Secretary shall circulate the minutes of the Committee to all members of the Board, Meeting attendees, and the external auditors. The Chairman of the Committee shall, as a minimum, attend the Board Meeting at which the accounts are approved.

The Audit Committee shall annually review its terms of reference and its own effectiveness and recommend any necessary changes to the Board.

The Audit Committee Chairman shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Audit Committee's activities and their responsibilities.

**JNB/VJW**  
**17 May 2010 (Revised)**

## **ASSETS AND LIABILITIES COMMITTEE (ALCO) - TERMS OF REFERENCE**

**Composition:**        **G.J. Caves (Chairman)**  
                              **Mrs. A. East**  
                              **D.J. Milner**  
                              **J.N. Bland**

Minutes will be taken at each meeting and circulated to the full Board.

The Assets and Liabilities Committee should report quarterly to the main Board.

The main responsibilities of the Committee are:-

### **Treasury**

- \* to review and agree Treasury policy including those on the area of liquidity and Financial risk management.
- \* to review previous Treasury activity and performance.
- \* to review and approve treasury counterparties and their associated credit limits.
- \* to review cash-flow projections and liquidity stress testing.
- \* to monitor and approve Committed Funding Lines.
- \* monitor use of hedging instruments.
- \* monitor and agree proposed developments/changes in treasury activity.

### **General Policy**

- \* Review and agree Society's Treasury Policy including those in the areas of Liquidity, Financial Risk Management and Funding.
- \* Assess implications of FSA Guidelines.

## **Balance Sheet**

- \* Monitor structure of Society's Assets and Liabilities.
- \* Review and agree Society's Financial Risk Management Policy Statement.
- \* Monitor mortgage and investment products in terms of Balance Sheet structure and risk.

**GJC/LJL**

**14 May 2010 (Revised)**

## **TERMS OF REFERENCE - REMUNERATION COMMITTEE**

Composition: D.A. Gamble (Chairman)  
J.R.D. Anton  
B.W. Frankling

- \* The Committee shall comprise the above, for the purposes of reviewing annually and effecting appropriate remuneration levels for Executive Directors and Chairman of the Society and non Board members as appropriate.
- \* The Chief Executive may be in attendance at the Committee meetings for the purposes of reviewing and effecting appropriate remuneration levels for non Board members as appropriate.
- \* The non-Executive Director(s) remuneration shall be determined annually by the Committee.

### **Meetings:**

- \* Meetings shall be held at least annually at such appropriate time as determined by the Committee to facilitate appropriate levels of remuneration for all members of the Executive for the twelve months following the start of the Society's financial year.
- \* Meetings shall also be held, at any time it is felt necessary to review the remuneration package of any existing or nominated executive Director for any reason.
- \* Meetings shall also be held, at any time it is felt necessary to review the remuneration package of a non-Board member of the Executive or for determining the appropriate remuneration package of a new member of the Executive.

### **Minutes:**

- \* Minutes will be Private Minutes and circulated to the full Board for confirmation.

## Terms of Reference

- 1 To continuously monitor the remuneration packages of executives within the building society industry specifically and within the financial services and broad market-place generally.
- 2 To be responsible for considering all elements of the Executives' remuneration such that the Society attracts and retains Executives of sufficient calibre for its continued well-being.
- 3 To ensure that members of the Executive are motivated and fairly rewarded for their individual contributions to the Society's overall performance.
- 4 The Committee to recommend the appropriate remuneration package for Executive Directors with regard to his or her duties, responsibilities and performance.
- 5 To determine the annual remuneration of Directors in accordance with Rule 19, in that the rate to be paid shall not exceed ten pence per one hundred pounds of total assets of the Society as at the first day of the financial year in which payment is made. The remuneration to be divisible among the Directors in such proportion as may be agreed among them by a majority decision and, in default of agreement, in equal shares.
- 6 To consider and approve the general staff salary increase proposed for the next financial year together with any individual adjustments.
- 7 To be informed of proposed bonuses for members of staff considered eligible following the annual appraisal process.
- 8 To ensure the Combined Code on Corporate Governance is taken into account.

GJC/LJL

29 May 2009 (Revised)

## TERMS OF REFERENCE – NOMINATIONS COMMITTEE

Composition: Full Board

The Nomination Committee is responsible for identifying and nominating candidates for the approval to fill Board vacancies as and when they arise.

A review of existing skills, knowledge and experience of Board members should be carried out and, in the light of this evaluation, a description of the role and capabilities required for a particular appointment should be written.

The full Board will represent the Committee. [The Chairman should chair the Committee, but the Chairman should not chair the Nomination Committee when it is dealing with the appointment of a successor of the Chairmanship] [Combined code A.4.1].

A report/copy of the minutes should be made following any meetings of the Committee.

### Principal Duties

The Board Appointment/Nomination Committee should

- \* give full consideration to succession planning, taking into account the challenges and opportunities facing the Society and what skills and expertise are therefore needed on the Board in the future;
- \* regularly review the structure, size and composition of the Board (including skills, knowledge and experience) and agree any changes;
- \* review the leadership needs of the Society, both Executive and Non-Executive, with a view to ensuring the continued ability of the Society to compete effectively in the marketplace;
- when looking to recruit a new Director, consider candidates from a wide range of backgrounds.  
Minutes must be kept of meetings to recruit a new appointment, the method of attainment of candidates and number of candidates interviewed and records of interviews.

- \* ensure that on appointment to the Board, Non Executive Directors receive a formal letter of appointment setting out clearly what is expected of them of time commitment, Committee service and involvement outside Board meetings.
- \* review annually the time required from a Non Executive Director. Performance evaluation should be used to assess whether the Non Executive Director is spending enough time to fulfil their duties.
- \* if a Non Executive Director has been on the Board beyond six years (they may serve nine years - three 3 year terms) a review must be carried out to ensure that the Board retains a good balance of skills and knowledge.
- \* where a Non Executive Director is to serve longer than nine years the Committee must state the reasons and the outcome of the review.
- \* review the Non Executive Director's re-appointment at the conclusion of any specified term of office as appropriate under the Society's Rules in respect of retirement by rotation;
- \* ensure that the terms and conditions of appointment of a Non Executive Director should be made available for inspection.
- \* record how the new appointment has been determined, e.g, through an AGM process, external research consultancy or has been openly advertised. [Combined Code A.4.6].
- \* ensure that an induction training programme is in place for a new Non Executive Director.

**GJC/LJL**

**9 May 2009 (Revised)**

## **MARKETING COMMITTEE – TERMS OF REFERENCE**

**Composition:** J. R. D. Anton (Chairman)  
B. W. Frankling  
G. J. Caves  
J. N. Bland

Minutes will be taken at each meeting and circulated to the full Board.

The main responsibilities of the Committee are:-

- To review and agree Marketing policy, to include all elements of the Marketing mix undertaken by the Society. This may be variable but will be likely to include the key areas:

### Advertising

- Creative solutions, media options, frequency.

### Public Relations

- Coverage, messages, opportunities.

### Direct Marketing

- Direction, cross-selling, targeting.

### Sponsorship

- Impact /opportunity to benefit community / Society relationship.

### E-Marketing

- Website development, email marketing.

- To review previous Marketing activity and performance.
- To review and agree corporate profile policy and issues related to branding and image of the Society.
- To agree annual budget allocation.

Meetings:

- Meetings shall be held at any time it is felt necessary to review Marketing activity or policy and shall be held at least three times per year.

**MW**  
**June 2008**

## **LENDING RISK COMMITTEE TERMS OF REFERENCE**

### **1. Composition**

- Three Non-Executive Directors.
- Chief Executive.
- Finance Director.
- General Manager (Administration).
- Mortgage Manager.
- Assistant Mortgage Manager.

The Chairman of the LRC is appointed by the Board.

### **2. Constitution**

The Board has established a sub-committee to be known as the Lending Risk Committee (LRC) to support it in achieving its lending risk objectives and responsibilities. LRC reports directly to the Board.

### **3. Quorum**

For a quorum to be established a minimum of four of the members must be present who must include one Non-Executive Director, one Executive Director and two other committee members.

### **4. Frequency of Meetings**

Meetings should be held on a monthly basis. The Chairman of LRC may also convene meetings of the committee if in his judgement a mortgage proposal or issue arises that must be sanctioned/addressed before the next scheduled meeting.

### **5. Authority**

LRC is authorised by the Board to:

- Maintain lending risk within Board approved limits.
- Maintain lending policy, risk control and profitability to assist in delivering the corporate plan.
- Set and agree the terms of reference for lending risk model development.
- Provide an oversight role in relation to the operation of the lending business. This will include ensuring that there are adequate resources in place (staff numbers, experience and skills) and that the systems established by management to identify, assess, manage and monitor loans are effective.
- To sanction new lending up to £1m per borrower; and
- To sanction new lending up to £1m per borrower that does not satisfy current underwriting policy.

### **6. Objectives**

The objectives of the LRC are:

- Provide challenge and oversight of lending risk assessments.
- Monitor lending portfolio quality.
- Recommend to the Board for approval and inclusion within policy amendments to exposure limits, any new lending product area, market or lending jurisdiction.
- Monitor lending areas for alignment to the Board risk appetite.
- Annually review the lending policies and present to the Board for approval.
- Update the Board with regards to Society lending risks.
- Monitor lending risk elements to the Society's ICAAP.
- Monitor and recommend to the Board the lending risk inputs to the pricing model.

## **7. LRC Mortgage Mandate**

The LRC is authorised by the Board to sanction new lending up to £1.0 million per borrower and to sanction new lending up to £1.0 million per borrower, that does not satisfy current lending policy.

Loans must be approved by 3 of the LRC members to include 2 non-executive directors and the Chief Executive or in the absence of the Chief Executive the Finance Director or General Manager Administration.

## **8. Communication**

The Secretary of the LRC will circulate the agenda and papers for meetings at least two days before the meeting.

Loans requiring approval by the LRC will be submitted for approval in a format agreed by the LRC.

Formal minutes, approved by the Chairman of the LRC shall be submitted to the main Board following each meeting of the LRC

**KJ/LJL**  
**May 2010**